

# REPEAL OF FEDERAL COMMUNICATIONS EXCISE TAX

MAY 22, 2000.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. ARCHER, from the Committee on Ways and Means,  
submitted the following

## R E P O R T

[To accompany H.R. 3916]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the bill (H.R. 3916) to amend the Internal Revenue Code of 1986 to repeal the excise tax on telephone and other communication services, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

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The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

### SECTION 1. REPEAL OF FEDERAL COMMUNICATIONS EXCISE TAX.

(a) IN GENERAL.—Chapter 33 of the Internal Revenue Code of 1986 (relating to facilities and services) is amended by striking subchapter B.

(b) PHASE-OUT OF TAX.—Paragraph (2) of section 4251(b) of such Code (defining applicable percentage) is amended to read as follows:

“(2) APPLICABLE PERCENTAGE.—The term ‘applicable percentage’ means—

“(A) 2 percent with respect to amounts paid pursuant to bills first rendered on or after the 30th day after the date of the enactment of this subparagraph and before October 1, 2001, and

“(B) 1 percent with respect to amounts paid pursuant to bills first rendered after September 30, 2001, and before October 1, 2002.”.

(c) CONFORMING AMENDMENTS.—

(1) Section 4293 of such Code is amended by striking “chapter 32 (other than the taxes imposed by sections 4064 and 4121) and subchapter B of chapter 33,” and inserting “and chapter 32 (other than the taxes imposed by sections 4064 and 4121),”.

(2)(A) Paragraph (1) of section 6302(e) of such Code is amended by striking “section 4251 or”.

(B) Paragraph (2) of section 6302(e) of such Code is amended—

(i) by striking “imposed by—” and all that follows through “with respect to” and inserting “imposed by section 4261 or 4271 with respect to”, and

(ii) by striking “bills rendered or”.

(C) The subsection heading for section 6302(e) of such Code is amended by striking “COMMUNICATIONS SERVICES AND”.

(3) Section 6415 of such Code is amended by striking “4251, 4261, or 4271” each place it appears and inserting “4261 or 4271”.

(4) Paragraph (2) of section 7871(a) of such Code is amended by inserting “or” at the end of subparagraph (B), by striking subparagraph (C), and by redesignating subparagraph (D) as subparagraph (C).

(5) The table of subchapters for chapter 33 of such Code is amended by striking the item relating to subchapter B.

(d) EFFECTIVE DATES.—

(1) REPEAL.—The amendments made by subsections (a) and (c) shall apply to amounts paid pursuant to bills first rendered after September 30, 2002.

(2) PHASE-OUT.—The amendment made by subsection (b) shall apply to amounts paid pursuant to bills first rendered on or after the 30th day after the date of the enactment of this Act.

## I. SUMMARY AND BACKGROUND

### A. PURPOSE AND SUMMARY

The bill, H.R. 3916, provides relief to individuals and small businesses by repealing the Federal communications excise tax.

The bill reduces the Federal communications excise tax in one percentage point increments, beginning with amounts paid with respect to bills rendered 30 days after enactment and continuing until the tax is repealed (beginning on October 1, 2002).

### B. BACKGROUND AND NEED FOR LEGISLATION

The Federal communications excise tax originally was enacted in 1898, for toll telephone service only. After being repealed and reenacted several times, the tax was reenacted in substantially its current form in 1941, on both toll and general local service. The current provisions of law are outdated relative to current communications technology. Modifying the provisions to include communications by, e.g., Internet transmission, would add significant complexity to the law in addition to being inconsistent with Congressional objectives to foster development of the Internet.

### C. LEGISLATIVE HISTORY

The bill, H.R. 3916, was introduced by Mr. Portman on March 14, 2000. The Committee marked up the bill on May 17, 2000, and approved the bill with a Chairman’s amendment in the nature of a substitute, by a voice vote (with a quorum present).

## II. EXPLANATION OF THE BILL

### A. PRESENT LAW

#### *In general*

A three percent Federal excise tax is imposed on amounts paid for communications services (Code sec. 4251).<sup>1</sup> Communications services are defined as “local telephone service,” “toll telephone service,” and “teletypewriter exchange service.”<sup>2</sup> The person paying for the service (i.e., the consumer) is liable for payment of the tax. Service providers are required to collect the tax; however, if a consumer refuses to pay, the service provider is not liable for the tax and is not subject to penalty for failure to collect if reasonable efforts to collect have been made. Instead, the service provider must report the delinquent consumer’s name and address to the Treasury Department, which then must attempt to collect the tax.

Local telephone service is defined as the provision of voice quality telephone access to a local telephone system that provides access to substantially all persons having telephone stations constituting a part of the local system. Toll telephone service is defined as voice quality communication for which (1) there is a toll charge that varies with the distance and elapsed transmission time of each individual call and payment for which occurs in the United States, or (2) a service (such as “WATS” service) which, for a flat periodic charge, entitles the subscriber to an unlimited number of telephone calls to or from an area outside the subscriber’s local system area.

Special rules, enacted in 1997, apply to the sale of “prepaid telephone cards.” These cards are subject to tax when they are sold by a telecommunications carrier to a non-carrier (rather than when communication services are provided to the consumer). The base to which the tax is applied is the face amount of the card.

#### *Exemptions*

Present law provides for the following exemptions:

- Public coin-operated service from the tax on local telephone service, and to the extent that the charge is less than 25 cents, from the toll telephone service tax.<sup>3</sup>
- Service for the collection of news by the public press, news ticker, or radio broadcasting services (providing a news service as part of or similar to that of the public press), from the toll telephone service tax. (Local telephone service provided to the press is subject to tax.)
- Private communication service for which a separate charge is made, from the local telephone service tax.<sup>4</sup>

<sup>1</sup>The tax base does not include State or local taxes on the same provided that the amount of the State or local tax is separately stated on the customer’s bill.

<sup>2</sup>Teletypewriter exchange service refers to a data system that is understood to be no longer in use.

<sup>3</sup>If coin-operated toll service is taxable, the tax is computed to the nearest multiple of five cents.

<sup>4</sup>Private communication service is defined as (1) service that entitles the customer to exclusive or priority use of a communication channel or group of channels, or an intercommunication system for the customer’s stations; (2) switching capacity, extension lines and stations, or other associated services provided in connection with services described in (1); and (3) channel mileage connecting a telephone outside a local service area with a central office in the local area.

- Service provided to international organizations and the American Red Cross.
- Toll telephone service provided to members of the Armed Services who are stationed in combat zones.
- Certain toll telephone service to common carriers, telephone or telegraph companies, or radio broadcasting stations or networks in the conduct of these businesses.
- Installation charges (including wires, poles, switchboards, or other equipment).
- Telephone service provided to non-profit hospitals.
- Telephone service provided to State and local governments.
- Telephone service provided to nonprofit educational organizations.

#### B. OVERVIEW OF HISTORY OF THE COMMUNICATIONS EXCISE TAX<sup>5</sup>

The first tax on telephone service was enacted in 1898 to help finance the Spanish-American War. That tax was repealed in 1902 and was not re-enacted until World War I required additional revenues. The World War I telephone tax was repealed in 1924 and was re-enacted in 1932. All of these initial telephone taxes applied only to toll (long distance) service. In 1941, with the advent of World War II, the tax was extended to general local service.

An excise tax on telephone service has been in effect in every year since 1941, despite enactment of periodic legislation to repeal or phase-out the tax. In the Excise Tax Reduction Act of 1965, Congress scheduled a phase-out, beginning with a reduction in the then 10-percent rate<sup>6</sup> for both local and toll service to three percent after 1965. Additional reductions of one percentage point per year were scheduled thereafter until there would have been no tax effective on January 1, 1969. However, the scheduled reductions were repealed in 1966 (effective April 1, 1966), and the 10-percent rate was re-instated. A delayed phase-out schedule was enacted in 1968, to begin in 1970. This phase-out schedule also was postponed, with a one-percentage point per year phase-out finally going into effect on January 1, 1973.

In 1973, the tax rate declined from 10 percent to 9 percent as the first step in this phase-out, which was to be completed beginning in 1982. However, the Omnibus Reconciliation Act of 1980 delayed the repeal by one year (until 1983); and the Economic Recovery Tax Act of 1981 further delayed repeal for two additional years. After reaching a rate of one percent, the rate was increased again to three percent in 1983, and after being extended at that rate several times, the three percent rate was made permanent by the Revenue Reconciliation Act of 1990.

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Unlike the other exemptions, the special treatment for private communication service is accomplished by means of an exclusion from the definition of local telephone service rather than as a stated exemption.

<sup>5</sup>For a more complete discussion of the history of the communications excise tax, see Congressional Research Service (Louis Alan Talley), *The Federal Excise Tax on Telephone Service*, A History, May 9, 2000 (RL30553).

<sup>6</sup>At their highest, the tax rates were 15 percent on general local service and 25 percent on toll service costing more than 24 cents per message. These rates were in effect from 1944 until 1954.

### C. REASONS FOR CHANGE

The non-social security portion of the Federal budget is in surplus. Therefore, the Committee believes that it is appropriate to return some of the taxpayers' money to the taxpayers. The excise tax on telephone service originally was enacted as a wartime revenue measure targeted at a service that was a luxury for many households. Today telephone service is not a luxury, but a necessity. As such, the burden of the excise tax on telephone service is regressive. Moreover, telephone service provides the basis for much of the growth of the digital economy. A tax on telephone service may inhibit growth of this new sector of the economy.

### D. EXPLANATION OF PROVISIONS

H.R. 3916, as reported, phases out the three-percent Federal communications excise tax, beginning with amounts paid with respect to bills first rendered 30 days after enactment. The phase-out schedule is as follows:

<i>Period</i>	<i>Tax rate</i>
30 days after enactment—September 30, 2001 .....	2 percent.
October 1, 2001—September 30, 2002 .....	1 percent.
October 1, 2002 and thereafter .....	No tax.

The Committee recognizes that some local excise taxes mirror the tax rules, exemptions and rates of the Federal telecommunications excise tax to be repealed. The Committee urges the telecommunications industry to work cooperatively with state and local entities, particularly during the period when the Federal excise tax is being phased out.

## III. VOTES OF THE COMMITTEE

In compliance with clause 3(b) of rule XIII of the Rules of the House of Representatives, the following statement is made concerning the votes of the Committee on Ways and Means in its consideration of the bill, H.R. 3916.

The bill was ordered favorably reported by voice vote (with a quorum present).

## IV. BUDGET EFFECTS OF THE BILL

### A. COMMITTEE ESTIMATES OF BUDGETARY EFFECTS

In compliance with clause 3(d)(2) of rule XIII of the Rules of the House of Representatives, the following statement is made concerning the effects on the budget of the bill, H.R. 3916, as reported.

The bill is estimated to have the following effects on budget receipt for fiscal years 2000–2010:

ESTIMATED BUDGET EFFECTS OF H.R. 3916, AS REPORTED BY THE COMMITTEE ON WAYS AND  
MEANS

[Fiscal years 2000–2000, in millions of dollars]

Provision	Effective	2000	2001	2002	2003	2004	2005	2000–05
Repeal the Federal Commu- nications Excise Tax.	( <sup>1</sup> )	– 232	– 1,444	– 3,039	– 4,799	– 5,043	– 5,303	– 19,860

<sup>1</sup> Effective for amounts paid for telephone bills first rendered at least 30 days after the date of enactment.

Note.—Details may not add to totals due to rounding. Enactment date is assumed to be 7/1/00.

Source: Joint Committee on Taxation.

B. STATEMENT REGARDING NEW BUDGET AUTHORITY AND TAX  
EXPENDITURES

*Budget authority*

In compliance with clause 3(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee states that the bill involves no new or increased budget authority.

*Tax expenditures*

In compliance with clause 2(c)(2) of rule XIII of the Rules of the House of Representatives, the Committee states that the bill involves no increased tax expenditures.

C. COST ESTIMATE PREPARED BY THE CONGRESSIONAL BUDGET  
OFFICE

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, requiring a cost estimate prepared by the Congressional Budget Office (“CBO”), the following statement by CBO is provided.

U.S. CONGRESS,  
CONGRESSIONAL BUDGET OFFICE,  
*Washington, DC, May 19, 2000.*

Hon. BILL ARCHER,  
*Chairman, Committee on Ways and Means,  
House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 3916, a bill to amend the Internal Revenue Code of 1986 to repeal the excise tax on telephone and other communication services.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Hester Grippando.

Sincerely,

BARRY B. ANDERSON  
(For Dan L. Crippen, Director).

Enclosure.

*H.R. 3916—To amend the Internal Revenue Code of 1986 to repeal the excise tax on telephone and other communication services*

Summary: H.R. 3916 would repeal the federal telecommunication excise tax. The Joint Committee on Taxation (JCT) estimates that the bill would reduce federal revenues by \$232 million in fiscal year 2000, by about \$20 billion over the 2000–2005 period, and by

about \$51 billion over the 2000–2010 period. Because the bill would affect receipts, pay-as-you-go procedures would apply.

H.R. 3916 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

Estimated cost to the Federal Government: The estimated budgetary impact of H.R. 3916 is shown in the following table:

	By fiscal year, in millions of dollars—					
	2000	2001	2002	2003	2004	2005
CHANGES IN REVENUES						
Estimated Revenues .....	– 232	– 1,444	– 3,039	– 4,799	– 5,043	– 5,303

Basis of estimate: The estimate for H.R. 3916 was provided by JCT.

Pay-as-you-go considerations: The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays and governmental receipts that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By fiscal year, in millions of dollars—										
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Changes in outlays .....	not applicable										
Changes in receipts .....	– 232	– 1,444	– 3,039	– 4,799	– 5,043	– 5,043	– 5,578	– 5,868	– 6,174	– 6,502	– 6,852

Intergovernmental and private-sector impact: H.R. 3916 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

Estimate prepared by: Federal costs: Hester Grippando.

Estimate approved by: G. Thomas Woodward, Assistant Director for Tax Analysis.

## V. OTHER MATTERS TO BE DISCUSSED UNDER THE RULES OF THE HOUSE

### A. COMMITTEE OVERSIGHT FINDINGS AND RECOMMENDATIONS

With respect to clause 3(c)(1) of rule XIII of the Rules of the House of Representatives (relating to oversight findings), the Committee advises that it was the result of the Committee's oversight review concerning the Federal communications excise tax that the Committee concluded that it is appropriate and timely to enact the provisions included in the bill as reported.

#### B. SUMMARY OF FINDINGS AND RECOMMENDATIONS OF THE COMMITTEE ON GOVERNMENT REFORM

With respect to clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, the Committee advises that no oversight findings or recommendations have been submitted to this Committee by the Committee on Government Reform with respect to the provisions contained in the bill.

#### C. CONSTITUTIONAL AUTHORITY STATEMENT

With respect to clause 3(d)(1) of rule XIII of the Rules of the House of Representatives (relating to Constitutional Authority), the Committee states that the Committee's action in reporting this bill is derived from Article I of the Constitution, Section 8 ("The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises. \* \* \*").

#### D. INFORMATION RELATING TO UNFUNDED MANDATES

This information is provided in accordance with section 423 of the Unfunded Mandates Act of 1995 (P.L. 104-4).

The Committee has determined that the bill as reported does not contain any Federal mandates on the private sector or any Federal mandates intergovernmental mandates on State, local, or tribal governments.

#### E. APPLICABILITY OF HOUSE RULE XXI 5(B)

Rule XXI 5(b) of the Rules of the House of Representatives provides, in part that "No bill or joint resolution, amendment, or conference report carrying a Federal income tax rate increase shall be considered as passed or agreed to unless determined by a vote of not less than three-fifths of the Members." The Committee has carefully reviewed the provisions of the bill, and states that the provisions of the bill do not involve any Federal income tax rate increase within the meaning of the rule.

#### F. TAX COMPLEXITY ANALYSIS

The following tax complexity analysis is provided pursuant to section 4022(b) of the Internal Revenue Service Reform and Restructuring Act of 1998, which requires the staff of the Joint Committee on Taxation (in consultation with the Internal Revenue Service ("IRS") and the Treasury Department) to provide a complexity analysis of tax legislation reported by the House Committee on Ways and Means, the Senate Committee on Finance, or a Conference Report containing tax provisions. The complexity analysis is required to report on the complexity and administrative issues raised by provisions that directly or indirectly amend the Internal Revenue Code and that have widespread applicability to individuals or small businesses. For each such provision identified by the staff of the Joint Committee on Taxation, a summary description of the provision is provided, along with an estimate of the number and type of affected taxpayers, and a discussion regarding the relevant complexity and administrative issues.



Following the analysis of the staff of the Joint Committee on Taxation are the comments of the IRS regarding each of the provisions included in the complexity analysis, including a discussion of the likely effect on IRS forms and any expected impact on the IRS.

*Summary description of the provision*

The bill repeals the three-percent Federal communications excise tax, according to a phase-out schedule beginning with amounts due with respect to bills first rendered 30 days after enactment. The phase-out schedule is as follows: 2 percent (30 days after enactment-September 30, 2001); 1 percent (October 1, 2001-September 30, 2002); no tax (beginning October 1, 2002).

The communications excise tax is collected by telecommunications companies as part of their regular bills for service to consumers. Consumers are liable for payment of the tax, however.

*Number of affected taxpayers*

It is estimated that the provision will affect approximately 93 million households and approximately 23 million business service customers. There may be some overlap in these categories because some businesses are located in private residences.

*Discussion*

Because the present communications excise tax is collected as part of telecommunications service provider bills, consumers (individuals and businesses) are not required to keep separate records of the tax under present law. Repeal of the tax will not result in any additional recordkeeping requirements for consumers. Repeal of the tax will eliminate current recordkeeping and tax payment requirements imposed on telecommunications service providers after the interim phase-out period. During the interim phase-out period, however, those service providers will have to modify their billing systems to accommodate the declining tax rates provided by the bill.

Repeal of the tax will eliminate any potential for disputes related to the scope of the tax between the IRS and either consumers or telecommunications service providers. No consumers' tax preparation costs will be affected because, as described above, those individuals and businesses do not file communications tax returns under present law. Once the tax is phased out, however, service providers will be relieved of the responsibility of collecting and depositing the tax and filing quarterly tax returns.

DEPARTMENT OF THE TREASURY,  
INTERNAL REVENUE SERVICE,  
*Washington, DC, May 18, 2000.*

Ms. LINDY L. PAULL,  
*Chief of Staff, Joint Committee on Taxation,*  
*Washington, DC.*

DEAR MS. PAULL: Following are the Internal Revenue Service's (IRS) comments on the House Committee on Ways and Means markup of H.R. 3916 (Repeal of the Federal Communications Excise Tax), which you identified for complexity analysis in your letter of May 18, 2000. Due to the short turnaround time, our com-

ments are provisional and subject to change upon a more complete and in-depth analysis of the provisions.

*Provision:* The three-percent Federal communications excise tax would be phased out, beginning with amounts paid with respect to bills first rendered 30 days after the date of enactment. The phase-out schedule is as follows:

<i>Period</i>	<i>Tax Rate</i>
30 days after enactment—September 30, 2001 .....	2 percent.
October 1, 2001—September 30, 2002 .....	1 percent.
October 1, 2002 and thereafter .....	No tax.

*IRS comments:* During the phaseout, the instructions for Form 720, Quarterly Federal Excise Tax Return, will need to be revised to show the reduced rates. The final phaseout will require deletion of all lines and instructions relating to the tax. Since service providers will continue to collect tax on their pre-October 1, 2002 billings long after that date, Form 720 will provide for the tax through at least the 4th quarter of 2003. The bill will reduce the reporting burden for approximately 4,700 taxpayers who currently report the tax. Minimal programming changes will be required to reflect elimination of the tax. No major regulatory guidance is anticipated.

Sincerely,

CHARLES O. ROSSOTTI.

## **VI. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED**

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in *italic*, existing law in which no change is proposed is shown in roman):

### **INTERNAL REVENUE SERVICE**

\* \* \* \* \*

## **Subtitle D—Miscellaneous Excise Taxes**

\* \* \* \* \*

## **CHAPTER 33—FACILITIES AND SERVICES**

\* \* \* \* \*

### **Subchapter B—Communications**

\* \* \* \* \*

#### **SEC. 4251. IMPOSITION OF TAX.**

(a) \* \* \*

(b) DEFINITIONS.—For purposes of subsection (a)—

(1) \* \* \*

**[(2) APPLICABLE PERCENTAGE.—**The term “applicable percentage” means 3 percent.]

*(2) APPLICABLE PERCENTAGE.—The term “applicable percentage” means—*

*(A) 2 percent with respect to amounts paid pursuant to bills first rendered on or after the 30th day after the date of the enactment of this subparagraph and before October 1, 2001, and*

*(B) 1 percent with respect to amounts paid pursuant to bills first rendered after September 30, 2001, and before October 1, 2002.*

\* \* \* \* \*

**THE FOLLOWING AMENDMENTS ARE EFFECTIVE AFTER SEPTEMBER 30, 2002**

## **CHAPTER 33—FACILITIES AND SERVICES**

**[SUBCHAPTER B. Communications.]**

\* \* \* \* \*

### **[Subchapter B—Communications**

**[Sec. 4251. Imposition of tax.**

**[Sec. 4252. Definitions.**

**[Sec. 4253. Exemptions.**

**[Sec. 4354. Computation of tax.**

#### **[SEC. 4251. IMPOSITION OF TAX.**

**[(a) TAX IMPOSED.—**

**[(1) IN GENERAL.—**There is hereby imposed on amounts paid for communications services a tax equal to the applicable percentage of amounts so paid.

**[(2) PAYMENT OF TAX.—**The tax imposed by this section shall be paid by the person paying for such services.

**[(b) DEFINITIONS.—**For purposes of subsection (a)—

**[(1) COMMUNICATIONS SERVICES.—**The term “communications services” means—

**[(A) local telephone service;**

**[(B) toll telephone service; and**

**[(C) teletypewriter exchange service.**

**[(2) APPLICABLE PERCENTAGE.—**The term “applicable percentage” means 3 percent.

**[(c) SPECIAL RULE.—**For purposes of subsections (a) and (b), in the case of communications services rendered before November 1 of a calendar year for which a bill has not been rendered before the close of such year, a bill shall be treated as having been first rendered on December 31 of such year.

**[(d) TREATMENT OF PREPAID TELEPHONE CARDS.—**

**[(1) IN GENERAL.—**For purposes of this subchapter, in the case of communications services acquired by means of a prepaid telephone card—

**[(A) the face amount of such card shall be treated as the amount paid for such communications services, and**

[(B) that amount shall be treated as paid when the card is transferred by any telecommunications carrier to any person who is not such a carrier.

[(2) DETERMINATION OF FACE AMOUNT IN ABSENCE OF SPECIFIED DOLLAR AMOUNT.—In the case of any prepaid telephone card which entitles the user other than to a specified dollar amount of use, the face amount shall be determined under regulations prescribed by the Secretary.

[(3) PREPAID TELEPHONE CARD.—For purposes of this subsection, the term “prepaid telephone card” means any card or any other similar arrangement which permits its holder to obtain communications services and pay for such services in advance.

**[SEC. 4252. DEFINITIONS.**

[(a) LOCAL TELEPHONE SERVICE.—For purposes of this subchapter, the term “local telephone service” means—

[(1) the access to a local telephone system, and the privilege of telephonic quality communication with substantially all persons having telephone or radio telephone stations constituting a part of such local telephone system, and

[(2) any facility or service provided in connection with a service described in paragraph (1).

The term “local telephone service” does not include any service which is a “toll telephone service” or a “private communication service” as defined in subsections (b) and (d).

[(b) TOLL TELEPHONE SERVICE.—For purposes of this subchapter, the term “toll telephone service” means—

[(1) a telephonic quality communication for which (A) there is a toll charge which varies in amount with the distance and elapsed transmission time of each individual communication and (B) the charge is paid within the United States, and

[(2) a service which entitles the subscriber, upon payment of a periodic charge (determined as a flat amount or upon the basis of total elapsed transmission time), to the privilege of an unlimited number of telephonic communications to or from all or a substantial portion of the persons having telephone or radio telephone stations in a specified area which is outside the local telephone system area in which the station provided with this service is located.

[(c) TELETYPEWRITER EXCHANGE SERVICE.—For purposes of this subchapter, the term “teletypewriter exchange service” means the access from a teletypewriter or other data station to the teletypewriter exchange system of which such station is a part, and the privilege of intercommunication by such station with substantially all persons having teletypewriter or other data stations constituting a part of the same teletypewriter exchange system, to which the subscriber is entitled upon payment of a charge or charges (whether such charge or charges are determined as a flat periodic amount, on the basis of distance and elapsed transmission time, or in some other manner). The term “teletypewriter exchange service” does not include any service which is “local telephone service” as defined in subsection (a).

[(d) PRIVATE COMMUNICATION SERVICE.—For purposes of this subchapter, the term “private communication service” means—

[(1) the communication service furnished to a subscriber which entitles the subscriber—

[(A) to exclusive or priority use of any communication channel or groups of channels, or

[(B) to the use of an intercommunication system for the subscriber's stations,

regardless of whether such channel, groups of channels, or intercommunication system may be connected through switching with a service described in subsection (a), (b), or (c),

[(2) switching capacity, extension lines and stations, or other associated services which are provided in connection with, and are necessary or unique to the use of, channels or systems described in paragraph (1), and

[(3) the channel mileage which connects a telephone station located outside a local telephone system area with a central office in such local telephone system,

except that such term does not include any communication service unless a separate charge is made for such service.

**[SEC. 4253. EXEMPTIONS.]**

[(a) CERTAIN COIN-OPERATED SERVICE.—Services paid for by inserting coins in coin-operated telephones available to the public shall not be subject to the tax imposed by section 4251 with respect to local telephone service, or with respect to toll telephone service if the charge for such toll telephone service is less than 25 cents; except that where such coin-operated telephone service is furnished for a guaranteed amount, the amounts paid under such guarantee plus any fixed monthly or other periodic charge shall be subject to the tax.

[(b) NEWS SERVICES.—No tax shall be imposed under section 4251, except with respect to local telephone service, on any payment received from any person for services used in the collection of news for the public press, or a news ticker service furnishing a general news service similar to that of the public press, or radio broadcasting, or in the dissemination of news through the public press, or a news ticker service furnishing a general news service similar to that of the public press, or by means of radio broadcasting, if the charge for such service is billed in writing to such person.

[(c) INTERNATIONAL, ETC., ORGANIZATIONS.—No tax shall be imposed under section 4251 on any payment received for services furnished to an international organization, or to the American National Red Cross.

[(d) SERVICEMEN IN COMBAT ZONE.—No tax shall be imposed under section 4251 on any payment received for any toll telephone service which originates within a combat zone, as defined in section 112, from a member of the Armed Forces of the United States performing service in such combat zone, as determined under such section, provided a certificate, setting forth such facts as the Secretary may by regulations prescribe, is furnished to the person receiving such payment.

[(e) ITEMS OTHERWISE TAXED.—Only one payment of tax under section 4251 shall be required with respect to the tax on any service, notwithstanding the lines or stations of one or more persons are used in furnishing such service.

[(f) COMMON CARRIERS AND COMMUNICATIONS COMPANIES.—No tax shall be imposed under section 4251 on the amount paid for any toll telephone service described in section 4252(b)(2) to the extent that the amount so paid is for use by a common carrier, telephone or telegraph company, or radio broadcasting station or network in the conduct of its business as such.

[(g) INSTALLATION CHARGES.—No tax shall be imposed under section 4251 on so much of any amount paid for the installation of any instrument, wire, pole, switchboard, apparatus, or equipment as is properly attributable to such installation.

[(h) NONPROFIT HOSPITALS.—No tax shall be imposed under section 4251 on any amount paid by a nonprofit hospital for services furnished to such organization. For purposes of this subsection, the term “nonprofit hospital” means a hospital referred to in section 170(b)(1)(A)(iii) which is exempt from income tax under section 501(a).

[(i) STATE AND LOCAL GOVERNMENTAL EXEMPTION.—Under regulations prescribed by the Secretary, no tax shall be imposed under section 4251 upon any payment received for services or facilities furnished to the government of any State, or any political subdivision thereof, or the District of Columbia.

[(j) EXEMPTION FOR NONPROFIT EDUCATIONAL ORGANIZATIONS.—Under regulations prescribed by the Secretary, no tax shall be imposed under section 4251 on any amount paid by a nonprofit educational organization for services or facilities furnished to such organization. For purposes of this subsection, the term “nonprofit educational organization” means an educational organization described in section 170(b)(1)(A)(ii) which is exempt from income tax under section 501(a). The term also includes a school operated as an activity of an organization described in section 501(c)(3) which is exempt from income tax under section 501(a), if such school normally maintains a regular faculty and curriculum and normally has a regularly enrolled body of pupils or students in attendance at the place where its educational activities are regularly carried on.

[(k) FILING OF EXEMPTION CERTIFICATES.—

[(1) IN GENERAL.—In order to claim an exemption under subsection (c), (h), (i), or (j), a person shall provide to the provider of communications services a statement (in such form and manner as the Secretary may provide) certifying that such person is entitled to such exemption.

[(2) DURATION OF CERTIFICATE.—Any statement provided under paragraph (1) shall remain in effect until—

[(A) the provider of communications services has actual knowledge that the information provided in such statement is false, or

[(B) such provider is notified by the Secretary that the provider of the statement is no longer entitled to an exemption described in paragraph (1).

If any information provided in such statement is no longer accurate, the person providing such statement shall inform the provider of communications services within 30 days of any change of information.

**[SEC. 4254. COMPUTATION OF TAX.**

**[(a) GENERAL RULE.—**If a bill is rendered the taxpayer for local telephone service or toll telephone service—

**[(1)** the amount on which the tax with respect to such services shall be based shall be the sum of all charges for such services included in the bill; except that

**[(2)** if the person who renders the bill groups individual items for purposes of rendering the bill and computing the tax, then (A) the amount on which the tax with respect to each such group shall be based shall be the sum of all items within that group, and

**[(B)** the tax on the remaining items not included in any such group shall be based on the charge for each item separately.

**[(b) WHERE PAYMENT IS MADE FOR TOLL TELEPHONE SERVICE IN COIN-OPERATED TELEPHONES.—**If the tax imposed by section 4251 with respect to toll telephone service is paid by inserting coins in coin-operated telephones, tax shall be computed to the nearest multiple of 5 cents, except that, where the tax is midway between multiples of 5 cents, the next higher multiple shall apply.

**[(c) CERTAIN STATE AND LOCAL TAXES NOT INCLUDED.—**For purposes of this subchapter, in determining the amounts paid for communications services, there shall not be included the amount of any State or local tax imposed on the furnishing or sale of such services, if the amount of such tax is separately stated in the bill.]

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## Subchapter E—Special Provisions Applicable to Services and Facilities Taxes

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**SEC. 4293. EXEMPTION FOR UNITED STATES AND POSSESSIONS.**

The Secretary of the Treasury may authorize exemption from the taxes imposed by subchapter A of chapter 31, section 4041, section 4051, [chapter 32 (other than the taxes imposed by sections 4064 and 4121) and subchapter B of chapter 33,] *and chapter 32 (other than the taxes imposed by sections 4064 and 4121)*, as to any particular article, or service or class of articles or services, to be purchased for the exclusive use of the United States, if he determines that the imposition of such taxes with respect to such articles or services, or class of articles or services will cause substantial burden or expense which can be avoided by granting tax exemption and that full benefit of such exemption, if granted, will accrue to the United States.

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## Subtitle F—Procedure and Administration

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## CHAPTER 64—COLLECTION

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### Subchapter A—General Provisions

\* \* \* \* \*

#### SEC. 6302. MODE OR TIME OF COLLECTION.

(a) \* \* \*

\* \* \* \* \*

ESTABLISHMENT BY REGULATIONS

(e) TIME FOR DEPOSIT OF TAXES ON [COMMUNICATIONS SERVICES AND] AIRLINE TICKETS.—

(1) IN GENERAL.—Except as provided in paragraph (2), if, under regulations prescribed by the Secretary, a person is required to make deposits of any tax imposed by [section 4251 or] subsection (a) or (b) of section 4261 with respect to amounts considered collected by such person during any semi-monthly period, such deposit shall be made not later than the 3rd day (not including Saturdays, Sundays, or legal holidays) after the close of the 1st week of the 2nd semimonthly period following the period to which such amounts relate.

(2) SPECIAL RULE FOR TAX DUE IN SEPTEMBER.—

(A) AMOUNTS CONSIDERED COLLECTED.—In the case of a person required to make deposits of the tax [imposed by—

[(i) section 4251, or

[(ii) effective on January 1, 1997, section 4261 or 4271, with respect to] *imposed by section 4261 or 4271 with respect to* amounts considered collected by such person during any semimonthly period, the amount of such tax included in [bills rendered or] tickets sold during the period beginning on September 1 and ending on September 11 shall be deposited not later than September 29.

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## CHAPTER 65—ABATEMENTS, CREDITS, AND REFUNDS

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### Subchapter B—Rules for Special Application

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#### SEC. 6415. CREDITS OR REFUNDS TO PERSONS WHO COLLECTED CERTAIN TAXES.

(a) ALLOWANCE OF CREDITS OR REFUNDS.—Credit or refund of any overpayment of tax imposed by section [4251, 4261, or 4271] *4261 or 4271* may be allowed to the person who collected the tax and paid it to the Secretary if such person establishes, under such regulations as the Secretary may prescribe, that he has repaid the amount of such tax to the person from whom he collected it, or ob-



tains the consent of such person to the allowance of such credit or refund.

(b) CREDIT ON RETURNS.—Any person entitled to a refund of tax imposed by section **[4251, 4261, or 4271]** *4261 or 4271* paid, or collected and paid, to the Secretary by him may, instead of filing a claim for refund, take credit therefor against taxes imposed by such section due upon any subsequent return.

(c) REFUND OF OVERCOLLECTIONS.—In case any person required under section **[4251, 4261, or 4271]** *4261 or 4271* to collect any tax shall make an overcollection of such tax, such person shall, upon proper application, refund such overcollection to the person entitled thereto.

(d) REFUND OF TAXABLE PAYMENT.—Any person making a refund of any payment on which tax imposed by section **[4251, 4261, or 4271]** *4261 or 4271* has been collected may repay therewith the amount of tax collected on such payment.

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## CHAPTER 80—GENERAL RULES

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### Subchapter C—Provisions Effecting More Than One Subtitle

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#### SEC. 7871. INDIAN TRIBAL GOVERNMENTS TREATED AS STATES FOR CERTAIN PURPOSES.

(a) GENERAL RULE.—An Indian tribal government shall be treated as a State—

(1) \* \* \*

(2) subject to subsection (b), for purposes of any exemption from, credit or refund of, or payment with respect to, an excise tax imposed by—

(A) chapter 31 (relating to tax on special fuels),

(B) chapter 32 (relating to manufacturers excise taxes),

or

**[(C) subchapter B of chapter 33 (relating to communications excise tax), or]**

**[(D)] (C) subchapter D of chapter 36 (relating to tax on use of certain highway vehicles);**

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